

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-04 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 AGR-05 DODE-00 PA-01

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R 040955Z NOV 74

FM AMEMBASSY SEOUL

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INFO AMCONSUL HONG KONG

AMEMBASSY TOKYO

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C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 7326

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: ECON KS PINT

SUBJECT: ECONOMIC RECESSION WILL BRING FOREIGN FINANCING AND
UNEMPLOYMENT PROBLEMS

REF: (A) SEOUL A-256; (B) SEOUL A-256; (C) SEOUL 6654

SECTION II OF III SECTIONS

BEGIN SUMMARY: SECTION I OF THIS MESSAGE DEALT IN
SOME DETAIL WITH RATHER GLOOMY EXTERNAL ECONOMIC
PROSPECT KOREA FACES. THIS SECTION DEALS WITH
DOMESTIC ECONOMIC REPERCUSSIONS. END SUMMARY.

1. BUSINESS SITUATION: WHILE TOTAL MANUFACTURING
PRODUCTION DECLINED 10.5 PERCENT IN AUGUST (LATEST DATA),
IT WAS STILL ONE PERCENT ABOVE THE HIGH JANUARY LEVEL
(REASONABLY ADJUSTED). DURING FEBRUARY-JULY
MANUFACTURING AS A WHOLE OPERATED AT A VERY HIGH LEVEL,
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ABOUT 33 PERCENT ABOVE THE 1973 AVERAGE AND ABOUT TEN

PERCENT ABOVE JANUARY 1974. ONLY TEXTILES AND PLYWOOD BEGAN A DEFINITE DOWNTREND IN FEBRUARY, AND BY AUGUST WERE 11 PERCENT AND 20 PERCENT, RESPECTIVELY, BELOW THEIR JANUARY LEVELS. THUS, EXCEPT FOR THESE TWO EXPORT SECTORS, AND TO A LESSER DEGREE ELECTRONICS, MOST INDUSTRIES WERE STILL OPERATING AT HIGH LEVELS IN AUGUST AND ONLY BEGINNING TO SLOW DOWN.

2. THE DECLINE IS EXPECTED TO SPREAD TO OTHER INDUSTRIES HOWEVER, AND THERE IS GROWING FEAR AND SOME TALK OF SHUTDOWNS AND BANDRUPTCIES. NO CURRENT COMPARATIVE DATA IS YET AVAILABLE ON THIS SCORE. ONE UNIVERSITY ECONOMIST HAS TOLD US 800 SMALL BUSINESSES HAVE CLOSED DOWN DURING PAST FEW MONTHS IN PERIOD WHEN PERHAPS 60 TO 80 FIRMS MIGHT BE NORMALLY EXPECTED TO FAIL. OVERDRAFTS AT BANKS HAVE BEEN SLIGHTLY IN RECENT MONTHS WHILE DISHONORED CHECKS AND BILLS HAVE BEEN SURPRISINGLY LOWER. GROWING NUMBER OF COMPANIES HAVE BEEN UNABLE TO MEET WAGE OBLIGATIONS. THUS BUSINESS SITUATION IS NOT YET SERIOUS BUT PROSPECT OF FIRST GENUINE RECESSION SINCE RAPID GROWTH BEGAN HAS NUMBER OF BUSINESS COMMUNITY MEMBERS WORRIED.

3. BUSINESS COMMUNITY INDICATED, THAT PSYCHOLOGICAL EFFECTS OF THESE DEVELOPMENTS, WHILE SPREADING AND INCREASING IN INTENSITY IN SOME AREAS, ARE BY NO MEANS UNIVERSAL. MOST BUSINESSMEN HAVE BEEN ANTICIPATING PROBLEMS IN ONE FORM OR ANOTHER FOR SOME TIME AND THOSE IN THE MOST IMMEDIATELY AFFECTED AREAS; E.G., TEXTILE, PLYWOOD AND ELECTRONICS, HAVE BEEN AND CONTINUE TO BE INCREASINGLY VOCIFEROUS ABOUT THEIR CONCERNS. MOREOVER MINISTER OF COMMERCE AND INDUSTRY CHANG YE JOON TOLD COMMERCIAL COUNSELOR FOLLOWING RECENT TRIP TO EUROPE THAT HE BELIEVES FOREIGN MARKETS WILL BE DEPRESSED FOR SOME TIME AND THAT HE DOES NOT FORESEE UPSWING IN KOREAN ECONOMY TO ANYTHING LIKE FORMER LEVELS OF GROWTH FOR AT LEAST A YEAR.

4. DESPITE THESE PESSIMISTIC SOUNDS, HOWEVER, THE TREMENDOUS BOUYANCY OF THE KOREAN ECONOMY OVER THE

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PAST DECADE HAS CREATED INCREASING RESILIENCE IN THE MINDS OF BUSINESSMEN AND THOSE IN THE MANY SECTORS UNAFFECTED TO DATE BY THE EXPORT DECLINE REMAIN OPTIMISTIC. HEAVY INDUSTRIES SUCH AS IRON AND STEEL, SHIPBUILDING, AND CEMENT ARE CONTINUING TO MOVE AHEAD RAPIDLY AND HAVE MAJOR EXPANSION PLANS. AS INDICATED IN EMBASSY AIRGRAM A-257 OF OCT 11 THERE ARE 12 MAJOR PRODUCTION CATEGORIES WHERE EXCELLENT US EXPORT

PROSPECTS EXIST. WHILE FOREIGN INVESTMENT IS DOWN FROM HIGH 1973 LEVEL, CONSIDERABLE INVESTOR INTEREST IS APPARENT. WESTINGHOUSE HAS JUST SIGNED UP FOR MAJOR NUCLEAR POWER DEVELOPMENT AND MITSUI, UNION CARBIDE, DOW CHEMICAL, AND GENERAL ELECTRIC AMONG OTHERS ARE SERIOUSLY CONSIDERING MAJOR INVESTMENTS. IN SUM, WHILE BUSINESSMEN IN SOME AREAS ARE HEARD TO COMPLAIN, THE MOMENTUM OF PAST GROWTH CONTINUES TO DOMINATE THE PSYCHOLOGICAL ATTITUDE OF A MAJOR PART OF THE BUSINESS COMMUNITY.

5. LABOR SITUATION: ON THE BASIS OF SUSPECT OFFICIAL STATISTICS, AS OF MIDYEAR 1974 THERE WERE 4.8 MILLION WAGE EARNERS EMPLOYED, A SIX PERCENT INCREASE OVER MID-1973. IN MANUFACTURING, WHERE 1.9 MILLION EMPLOYED, THE NUMBER OF JOBS LOST DUE TO SHUTDOWN DURING THE FIRST NINE MONTHS WAS OFFICIALLY REPORTED BY OLA AT 63,000 BUT INCREASED TO AROUND 100,000 AT THE END OF OCTOBER. THIS REPRESENTS A LOSS OF ABOUT 3.4 TO 5 PERCENT. BUSINESS LEADERS IN SOME LABOR INTENSIVE INDUSTRIES, SUCH AS TEXTILES, PLYWOOD, ELECTRONICS, ETC., WHO EMPLOY 25 PERCENT OF INDUSTRIAL LABOR FORCE FEEL THAT WITH GOVERNMENT CREDITS AND ASSISTANCE THEY MAY BE ABLE TO AVOID IMMEDIATE MAJOR EMPLOYMENT CUTS. THEY FEAR, HOWEVER, THAT EVEN BY CONTINUING TO CUT PAYROLL EXPENSES THROUGH REDUCED HOURS OR WORK SHIFTS, THEY WILL BE HARD PRESSED TO MAINTAIN CURRENT EMPLOYMENT LEVELS BEYOND YEAR END UNLESS BUSINESS IMPROVES. SO FAR GREATER PART OF BURDEN OF UNEMPLOYMENT HAS AFFECTED YOUNG WOMEN WORKERS, RATHER THAN HEADS OF FAMILIES.

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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 7326/2

6. ACCORDING TO RECENT SURVEY BY KORAN EMPLOYERS ASSOCIATION SOME 41 PERCENT OF COMPANIES IN FOOD, PETROCHEMICAL, RUBBER, PLASTICS, METAL AND MACHINE INDUSTRIES PLAN TO EXPAND AND INCREASE EMPLOYMENT, BUT THEIR EXPANSION RATE WILL BE LESS THAN LAST YEAR. NEW ENTRANTS INTO LABOR FORCE OBVIOUSLY WILL FIND JOB OPPORTUNITIES VERY LIMITED. POLITICALLY SENSITIVE GROUP OF HIGH SCHOOL AND UNIVERSITY GRADUATES WILL BE HARD HIT.

7. IMPACT ON WAGE SITUATION REMAINS UNCLEAR DUE TO LAG OF UP-TO-DATE OFFICIAL STATISTICS. OFFICIAL STATISTICS FOR MINING, MANUFACTURING, AND SERVICES SHOW MIDYEAR AVERAGE WAGE INCREASE OF 35 PERCENT OVER MIDYEAR 1973, AND 40 PERCENT FOR MANUFACTURING ALONE. COST OF LIVING INDEX INCREASED 28 PERCENT DURING SAME PERIOD. THIS WOULD PRESENT SUBSTANTIAL INCREASE OF REAL EARNINGS, WHICH HOWEVER IS NOT APPARENT. IN CONTRAST WITH OFFICIAL WAGE STATISTICS, US ARMY WAGE SURVEY SHOWED AVERAGED INCREASE OF ONLY 16.4 PERCENT, OR SUBSTANTIALLY LESS THAN OFFICIAL WAGE STATISTICS.
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MOREOVER RISE IN COL INDEX WAS UNDERSTATED, ESPECIALLY FOR LOWER INCOME GROUPS, AND WAS PROBABLY CLOSER TO 47 PERCENT INCREASE OF COMMODITY PRICE INDEX. THESE DISCREPANCIES, REFLECTING DELIBERATELY INFLATED COMPANY REPORTS ON WAGE INCREASES, SHED LIGHT ON CAUSES OF PRESENT DISCONTENT, AND EXPLAIN ROKG CONCERN WITH LABOR SITUATION BETTER THAN OFFICIAL LABOR STATISTICS.

8. AGRICULTURAL SITUATION: THE KOREAN GOVERNMENT'S MAJOR GOAL FOR THE AGRICULTURAL SECTOR IS AN ASSURED QUANTITY OF FOOD GRAINS AVAILABLE TO CONSUMERS AT REASONABLE PRICES. TO THAT END, THE ROKG DESIRES TO ACHIEVE SELF-SUFFICIENCY IN RICE BY 1976. DESPITE A CLAIMED RECORD RICE CROP OF 4.35 MILLION M.T. IN 1974, KOREA'S RATE OF SELF-SUFFICIENCY IN FOOD GRAINS PRODUCTION IN 1974 IS ESTIMATED AT 68.2 PERCENT, COMPARED WITH 68.6 PERCENT IN 1973, 72.8 PERCENT IN 1972, 70.8 PERCENT IN 1971 AND 81.6 PERCENT IN 1970.

KOREA'S CULTIVABLE LAND IS ALREADY COMMITTED TO RICE PRODUCTION AND ANY INCREASE IN DOMESTIC FOOD SUPPLY MUST COME FROM RESEARCH EFFORTS TO IMPROVE YIELD. THE AGRICULTURE MINISTRY CLAIMS IT WILL INCREASE RICE PRODUCTION IN 1975 BY TEN PERCENT. TO MAINTAIN INCENTIVE TO PRODUCE, THIS YEAR'S GOVERNMENT PURCHASE PRICE WAS INCREASED BY 38.5 PERCENT TO 15,760 WON PER 80 KG. BAG, ABOUT EQUAL TO INCREASE IN PRICE INDEX.

9. IMPORTED WHEAT NEEDS ARE COVERED THROUGH JUNE OF 1975 AND CURRENT WHEAT-RICE PRICE RELATIONSHIPS SUGGESTS WHEAT USAGE PER MONTH MAY INCREASE APPRECIABLY.

10 AT THIS TIME WE SEE NO IMMEDIATE COMMODITY PRICE OR AVAILABILITY PROBLEMS SUFFICIENT TO FUEL POLITICAL FIRES. IN LONGER TERM HOWEVER KOREAN SENSITIVITY TO FLUCTUATIONS AND DISRUPTIONS IN INTERNATIONAL GRAIN MARKETS COULD BECOME SUCH A PROBLEM.
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